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DOS review completed

GENERAL

1. US inclined to favor compact Israeli state--The Department of State has informed US Ambassador Douglas in London of its preliminary and tentative inclination toward a solution of the Palestine problem through re-drawing the Israeli frontiers in order to form a compact and homogeneous state. The Department also envisages the possibilities of: (a) setting up Jerusalem as an international city; (b) transferring most of the remainder of Palestine to Transjordan with population exchanges where necessary; and (c) establishing a customs union between Israel and Transjordan, with a mutual guarantee of frontiers underwritten by the UN. Meanwhile, the Department has instructed Douglas to inform the UK Foreign Office that the US welcomes the British desire to concert the views of both governments on Palestine and hopes that a common policy may be evolved. Douglas is to say that the US shares the reluctance of the UK to resort to sanctions in achieving a settlement and agrees to the necessity for extending the present four-week truce if a solution is not found before its expiration.
2. US favors re-opening Haifa oil refinery--The Department of State has also informed Douglas that it shares UK Foreign Minister Bevin's concern over the closing of the important oil refinery at Haifa. The Department sees no impropriety in placing the matter before UN Mediator Bernadotte but feels that, in accord with the truce, the refinery output should not be used to increase the military potential of the belligerents.

EUROPE

3. ITALY: USSR presses issue of ship contracts in Italy--US Ambassador Dunn has learned that the Soviet Commercial Attache in Rome has accused the Italian Foreign Office of preventing the conclusion of Soviet contracts with Italian ship-builders. The Italian Foreign Office expects the Italian Communists to bring this question to public attention within a

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few days. The Foreign Ministry is planning to request that the Cabinet approve Italian shipbuilding contracts amounting to about 15% of the program which the USSR has suggested.

(CIA Comment: The Italian shipbuilding firm, Ansaldo, has reportedly set exorbitant prices for such construction. Acceptance of these figures by the USSR would be motivated by one or more of the following factors: (a) the urgency of Soviet shipping needs; or (b) the importance to the USSR of pro-Soviet propaganda in Italy; or (c) Soviet hopes for applying shipbuilding payments to the Italian reparations account of the USSR.)

FAR EAST

4. CHINA: Communists may face severe food shortages--US Consul General Mukden reports that the Chinese Communists in Manchuria will be faced with severe food shortages during the coming winter. The Consul declares that a US observer who recently flew over the rich central Manchurian plains between Mukden and Changchun saw no cultivation there. He further indicates that even if the Communists have large grain stores, the failure to cultivate available farm land will indirectly place a great strain upon Communist transportation and will slow down Communist military operations, thus affording the Nationalists a breathing spell.

(CIA Comment: Although reported food shortages may possibly slow down Communist military operations, CIA believes that the supply difficulties facing the Nationalists are at least as serious as those confronting the Communists and that there will be no immediate change in the course of the civil conflict in Manchuria.)

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THE AMERICAS

5. **ARGENTINA:** Government may face a crisis-- US Ambassador Bruce reports that the Peron administration is aware that it may soon be facing a crisis resulting from the acute dollar shortage and chaotic financial and economic situation. Bruce believes that if Peron were overthrown, such action would probably be taken by the army.

(CIA Comment: CIA believes that the atmosphere of crisis precipitated by Argentine disappointment over failure to receive expected dollars from ECA purchases will not result in an overthrow of the present Government. Peron will probably be forced to rely more heavily on army support, and it is probable that propaganda will be increasingly directed against the US as the scapegoat for Argentina's present difficulties.)

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